

**North Carolina HIE
Finance Workgroup
April 20, 2011 Meeting Notes**

The North Carolina Health Information Exchange (NCHIE)'s Finance Workgroup meeting was held from 4 p.m. – 6 p.m. on Wednesday, April 20, 2011. This meeting was open to the public.

Meeting Attendees – Workgroup Members (Bolded members indicate attendance)	
Name	Organization
Maureen O'Connor (Co-Chair)	BCBSNC
Dave Tayloe (Co-Chair)	Goldsboro Pediatrics, American Academy of Pediatrics
Mark Bell	North Carolina Hospital Association
Brian Harris	Rural Health Group, Inc.
Yvonne Hughes	Coastal Carolinas Health Alliance
Mark Miller	Novant Health
John Minnich	Computer Sciences Corporation
Steve Owen	Division of Medical Assistance, NC DHHS
Phred Pilkington	Cabarrus County Health Department
Devdutta Sangvai	North Carolina Medical Society
Meeting Attendees – Members of the Public	
Melanie Phelps	North Carolina Medical Society
Holt Anderson	
Walker Wilson	NC DHHS-HIT
Richard Steam	IBM
Diane Ranker	AT&T
Staff	
Alan Hirsch	NCHIE
Steve Cline (Board Member)	NC DHHS-HIT
Fred Goldwater	BCBSNC
Anita Massey	NCHIE
Lammot du Pont	Manatt Health Solutions
Brenda Pawlak	Manatt Health Solutions
Keith Loo	Manatt Health Solutions

Agenda

- Welcome
 - Roll call
 - Progress to date
 - Meeting Objectives
- Financing Discussion
 - Current Progress to Advancing Finance Plan
 - Details of Proposed Payment Approach
 - Scenario Calculator
- Next Steps
- Public Comment

Items of Business

Please refer to the April 20th Finance Workgroup Meeting Slide Deck.

Welcome and Meeting Objectives:

- In kicking off the workgroup meeting, Alan Hirsch and Maureen O'Connor reminded the Workgroup of its charge to provide recommendations to the Board on financial sustainability options for the operation of the exchange. Today, the Workgroup will make recommendations to the Board on using the pre-payment approach as a framework for NC HIE's finance strategy. The pre-payment approach will inform the creation of a terms sheet. In addition, a credit approach will be used for a discount.
- Maureen also reviewed the anticipated costs/revenue of NC HIE. It will cost approximately \$24.4 million in administrative and operational costs for a statewide exchange over four years. The anticipated revenue is \$11.9 million, resulting in a gap of \$12.5 million.
- Maureen then reviewed the overall, agreed-upon financing approach. The following are the attributes of the finance strategy:
 - Participation is voluntary
 - Participants can pay through two means: "pre-payment" or "pay as you go"
 - Participants will pay percentage allocations per stakeholder category
 - The financial model will reward initial investors to incentivize early adopters
- A workgroup member had a question regarding Qualified Organization's member participation and its impact on the finance structure. For example, if a member organization within a Qualified Organization decides against pre-paying, what is the financial impact to that member organization? Fred Goldwater responded by first affirming that the pre-payment option is indeed voluntary and open to all stakeholders. Stakeholders who pre-pay will be eligible for a future discount. For example, in an organization like Coastal Care Alliance, which consists of both hospitals and provider practices, a log would be developed to track the number of hospitals/practices who choose to pre-pay. Discounts would be reflected according to this log. It was noted that the Governance workgroup is currently determining who would track this information. In addition, Maureen also noted the need to define what an "affiliated practice" is to

understand the idiosyncrasies of such a pricing structure. She also confirmed that provider practices, whether independent or affiliated, would be priced the same; this was agreed by the Workgroup at last month's meeting.

Proposed Pre-Payment Approach

Credit Account:

- It was decided that rather than discounting the payment upfront for early adopters, a credit would instead be applied towards the total amount. In essence, organizations that prepay would receive a 20% "credit" for each dollar they invest. Overall, the savings in "service charge for access to statewide HIE Network" would total \$20,000 over four years.
- Thus, workgroup noted that by pre-paying, stakeholders are ensuring a lower service charge over the course of four years. Because NC HIE is still determining the actual implementation and development costs for a statewide HIE, the duration of credit life varies. The credit will last longer with an overall lower total cost, and with a higher than anticipated total cost, the credit will last for a shorter amount of time.
- It was noted that the current development costs are only projections over a four year period. Therefore, the current numbers are only estimates. There are three major variables that will impact the total cost. They are as follows:
 - The price of the services available to stakeholders
 - The types of services available to stakeholders
 - The level of stakeholder participation
- Overall, there was support within the Workgroup for the use of a credit account to reflect discounted pricing. One workgroup member noted that an installment process is more comfortable for stakeholders (rather than paying a large portion of the cost up front, in one payment).
- In terms of alternative pricing structures, Lammot du Pont suggested the idea of allowing pre-payers the option of free service once their pre-payment installments were submitted in full. It was ultimately decided that the "credit account" option is a simple method that will easily differentiate payment for participants who choose to pre-pay and those that don't.

"Capital Campaign":

- The prepayment option will be structured as a capital campaign, where pre-payers will sign an agreement letter committing them to the HIE:
 - First installment: 50% of pre-payment due at the time of initial closing. The Board will establish a reasonable timeframe to collect pledges. In addition, a threshold with a firm close date will be established to understand the viability of this option. In essence, the timing will be structured to allow the workgroup to evaluate stakeholder interest in the capital campaign. It was also agreed that there will be a firm close date to collect pledges during this first installment.

- Second installment: The remaining 50% delivered at or before the go-live date. This is expected to be in Dec, 2011. The Clinical and Technical workgroup will continue to inform this workgroup on the progress of the technical infrastructure of the exchange.
- It was noted that commitment from stakeholders will be required in the next 60 days in order to ensure both stages of the capital campaign begin this year.
- The workgroup mentioned that the RFP will be released on Monday, April 25. The Clinical and Technical workgroup is meeting tomorrow, April 21, in a closed session to finalize the final criteria for vendor consideration. This is the final drafting process before releasing it on COB, April 25. Selection of a final vendor will take place by the end of June.
 - The workgroup decided that it will not share pre-payment information with vendors. Specific funding amounts will not be made public as vendors do not require actual funding amounts to be informed of the current financial status of the HIE. However, it was recommended that all information will be shared with stakeholders in their decision to select the pre-payment option.
- Brenda Pawlak noted that the Governance workgroup continues to create the criteria to define a Qualified Organization. This is important as the number of organizations defined as an “qualified organization” will impact this group’s finance strategy.
- The workgroup voted to develop a credit account for those that prepay with 20% credit for each dollar invested. The workgroup will use this strategy as a starting place to operationalize the overall financial assumptions and approach. This recommendation will be taken to the Board.
- The workgroup also voted to develop a prepayment option where 50% is due at time of initial closing, with the remaining 50% due upon NC HIE Board determination of statewide HIE network “go-live.” The workgroup decided that the option to pre-pay will be open to all stakeholders, for a limited amount of time. After the open period ends, no stakeholders will be eligible to pre-pay. This recommendation will be taken to the Board.
- The workgroup will use the above recommendations as a first step in creating a finance strategy. The recommendations may change as stakeholder feedback and assumptions are received and validated. The workgroup will use board members as a litmus test in seeking their feedback to the above recommendations. Following internal feedback, NC HIE will then seek external feedback from the community.

Scenario Calculator

Modeling Varying Elements of Costs:

- The Finance Work Group asked NC HIE to model different scenarios to illustrate the interplay between prepayment and pay-as-you-go options in the midst of varying cost considerations. Manatt developed a “scenario calculator” to highlight the implications across multiple cost

and revenue scenarios.

- Three variables were considered in the calculator:
 - Estimated costs (base, high, low) over four years for administrative and technical costs.
 - The number of entities who will prepay.
 - The rate of participation for those who will pay-as-you-go.
- Two assumptions were considered in the calculator:
 - A reinvestment pool was established, where positive cash flow (the difference between revenue and cost) will be reinvested into the cost model.
 - The contribution of payers (Medicaid and commercial plans) is constant in the model. It is also assumed that they would meet their 35% allocation of the total cost.

Assumptions and Variables:

- Total Cost Estimate: The base cost estimate is \$24.5m. The “Low Case” is 20% lower; the “High Case” is 20% higher.
- The number of Prepay Participants: The base number of prepay participants assumes 50% of all licensed beds and 16% of providers will participate through a pre-payment. The “Low Case” assumes 27% of all licensed beds and 11% of all providers will participate. The “High Case” assumes 61% of licensed beds and 21% of providers will participate.
- The number of “Pay-As-You-Go” Participants: The base number assumes 20% annual adoption. The “Low Case” assumes 15% adoption; the “High Case” assumes 25% adoption.
- A workgroup member noted that overall, the ideal scenario would consist of costs falling in the “Low Case” range with high participation among stakeholders.

Base Scenario:

- The base scenario reflects the total cost of \$24.4m over four years. In addition, revenue from “Pay-As-You-Go” is estimated to be \$2.3m over four years. Revenue from pre-payments is expected to be \$12m over four years. It was noted that pre-payments will be key to this finance model as it is the bulk of total funding. The advantage with pre-payment is the lack of dependence on pay-as-you-go revenue. The model also shows \$2.3m available for reinvestment. The board will determine how best to use the reinvestment funds.
- The workgroup noted that the numbers behind the cost model may continue to be updated as more information is gathered and assumptions are validated. The cost model should be seen as a framework that quantifies different scenarios in order to understand the variability of finance options. Also, the model seeks to substantiate the viability of different options by considering base, high and low cost scenarios.
- Maureen recommended adding a row for “Other” under “Pay As You Go” to reflect various other stakeholders that may be interested in utilizing NC HIE. For example, because NC HIE is a 501(3)c, it may accept various means of revenue, such as donations.

Next Steps:

- The workgroup will:
 - Work with the Executive Committee and Board to develop a Term Sheet
 - Share a draft of the Term Sheet with key stakeholders for review and feedback
- At the next meeting, the Co-Chairs will report to the group regarding feedback on the Term Sheet
- The workgroup will continue to think through sequencing and timing of the finance approach, particularly in seeking commitment for prepayment. There is confidence among the workgroup that many stakeholders will be interested in participating through pre-payments. It was mentioned that the healthcare community at large is interested in investing in the ability to connect to their peers as well as to improve the overall experience of patient care.

Public Comments:

- Holt Anderson commends the group on their work, noting that understanding the value equation will be key to the success of NC HIE.

Key Decisions

- NCHIE made the following recommendations to the Board:
 - Develop a credit account for those that prepay with 20% credit for each dollar invested. The workgroup will use this strategy as a starting place to operationalize the overall financial assumptions and approach.
 - Develop a prepayment option where 50% is due at time of initial closing, with the remaining 50% due upon NC HIE Board determination of statewide HIE network “go-live”. The workgroup decided that the option to pre-pay will be open to all stakeholders, for a limited amount of time. After the open period ends, no stakeholders will be eligible to pre-pay.

Action Items/Next Steps

- At next meeting, the workgroup will:
 - Draft a term sheet in collaboration with the Executive Committee and Board
 - Review and share a draft of the term sheet with key stakeholders for feedback
- Manatt will continue to refine the finance model by validating assumptions and gathering information from stakeholders

Next Meeting

- TBD